

Message Text

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ACTION EUR-25

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PASS AGRICULTURE

E.O. 11652: N/A

TAGS:EAGR: GW

SUBJECT: AGATTACHE DISCUSSIONS ON AGRICULTURAL POLICY ISSUES
IN FRG

1. SUMMARY - CURRENT MINAG PROPOSALS ON AGRICULTURAL POLICY AND
STOCKPILING SUGGEST FRG EFFORT TO ARREST CONTINUED FARM PRICE
INCREASES IN EC AND TO EXAMINE POSSIBILITIES FOR A COMPROMISE
ON THE VARIABLE LEVY SYSTEM. END SUMMARY

2. FROM INFORMAL DISCUSSIONS WITH MINISTRY OF AGRICULTURE AND OTHER
FARM OFFICIALS DURING THE LAST WEEK, WE BEGIN TO SENSE MORE THAN
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A LITTLE CONCERN ABOUT THE CONTINUED UPWARD SPIRALING OF FOOD

PRICES IN THE FRG. THE AUGUST PRICE INDEX FOR FOOD OF 138.3 WAS STILL 7.5 PERCENT HIGHER THAN THE PREVIOUS YEAR DESPITE SOME RECENT SEASONAL PRICE DECLINES. WE ALSO BELIEVE THAT CONSIDERABLE THOUGHT IS BEING GIVEN IN THE MINISTRY OF AGRICULTURE TO DEVISING ALTERNATIVES AND ACCEPTABLE PROPOSALS FOR MODIFYING THE CAP.

3. THE BASIC APPROACHES TO THESE CONCERNS ARE LINKED TO REEXAMINING THE CURRENT RELATIONSHIPS THAT AGRICULTURAL PRICE POLICY, STOCKPILING PROPOSALS, AND SEASONAL PRICING HAVE ON CONSUMER PRICES AND FARM INCOME.

4. WHILE THE FIRST TWO APPROACHES HAVE EMERGED IN PREVIOUS DISCUSSIONS, THE SEASONAL PRICE PROBLEM HAS NOT BEEN A MAJOR ISSUE. FRG OFFICIALS NOW FEEL A NEED TO FIND A MECHANISM TO ARREST DOMESTIC PRODUCER PRICE DECLINES DURING THE EARLY PHASE OF THE MARKETING SEASON BECAUSE THE LARGEST SHARE OF BULK PRODUCTS IN THE FRG IS SOLD IN THE BEGINNING OF THE MARKETING YEAR. IT HAS BEEN PROPOSED, FOR EXAMPLE, THAT A HIGHER INTERVENTION PRICE DURING THE PEAK SALES PERIOD OF THE MARKETING YEAR MIGHT BE FEASIBLE.

5. HOWEVER, THE INTERVENTION LEVEL WOULD BE REMOVED ENTIRELY AFTER THE PEAK SALES PERIOD AND THE MARKET WOULD THEN SET THE PRICE. UNDER THIS ASSUMPTION, PRICES FOR BULK COMMODITIES WOULD BE GUIDED BY THE INTERNATIONAL SUPPLY/DEMAND SITUATION FOR AT LEAST PART OF THE MARKETING YEAR. HOWEVER, THE FARMERS' POSITION ON THE INCOME SIDE WOULD STILL BE PARTLY SECURED BY THE ADMINISTERED PRICE AVAILABLE IN THE EARLY PART OF THE SEASON. AS PRESENTED TO US, THIS PROPOSAL WAS STILL UNDER DISCUSSION IN THE MINISTRY, BUT IT WAS BEING CONSIDERED SERIOUSLY AND IS EXPECTED TO BE SUBMITTED TO THE MINISTER.

6. ON THE CONCERNS ABOUT FARM PRICES, THE THINKING IS THAT THE CURRENT HIGH INTERNAL PRICE LEVEL FOR AGRICULTURAL PRODUCTS JUST ABOUT PRECLUDES FEDERAL REPUBLIC SUPPORT FOR ANY UPWARD PRICE ADJUSTMENTS IN THE MARKETING YEAR 1974/75.

7. ON THE STOCK AND STOCKPILING SIDE, FRG OFFICIALS AGAIN ALLUDED TO THE LOW CURRENT STOCKS OF GRAINS IN BOTH PRODUCING AND CONSUMING COUNTRIES AND IMPLIED THAT THE ATMOSPHERE FOR A SUCCESSFUL NEGOTIATION ON THE GRAIN ISSUE APPEARS TO BE BRIGHTER LIMITED OFFICIAL USE

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NOW THAN AT ANY PREVIOUS TIME. THE IDEA THAT CAME THROUGH FROM THIS COMMENT WAS THAT, BECAUSE OF THE HIGH WORLD PRICES, IT MIGHT BE TIMELY NOW TO REINTRODUCE THE ARGUMENT OF A FIXED LEVY, AT LEAST FOR PART OF THE MARKETING YEAR. IF THIS BEGINNING THOUGHT MEANS THAT THE FEDERAL REPUBLIC IS WILLING TO ADJUST ITS THINKING ON PRICES AND CONSIDER WORLD MARKET PRICES IN THE CAP CONTEXT, WE CAN SEE SOME GLIMMER OF HOPE FOR A NEW APPROACH IN THE UPCOMING GATT ROUNDS.

HILLENBRAND

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